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Industrial Unrest Caused by the Changing Measure of Value

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INDUSTRIAL stability depends upon proper mental conditions as well as upon proper material conditions in the industrial population and in the population served by industry. To say that the mental condition of the industrial population is tremendously disturbed is merely to state a commonplace. The disturbance of mind, however, is general throughout the population of this country and of the world. A study of the causes of this unrest and a search for methods of controlling the conditions underlying it are of first importance among present day problems.

INCREASING COST OF LIVING MAIN CAUSE OF INDUSTRIAL UNREST

The main cause of this unrest is the increasing cost of living which keeps draining out the purchasing power of the incomes of the great mass of the population, whether received as wages, salaries or interest. This naturally causes unrest and discontent. It will continue to do so until the conditions are changed which are doing the harm. Strikes, class hostility, political upsets, radical legislative and social experiments, and in some countries rebellions, revolutions and wars, are the logical consequence of the unchecked tendencies now existing in this country and Europe. If ever in the world's history clear and constructive economic and social thought was called for, it is now.

High prices or low prices, or better, a high price level or a low price level

in itself means nothing of importance to a population. China's population with her low price level should be very prosperous and wealthy, if a low price level is an advantage. On the other hand, the Russian population should be very prosperous if a high level of prices is desirable, their prices having multiplied many times in recent years. As a matter of fact, there is great disturbance in all civilized nations, no matter what their price levels are or have been, because of the increasing cost of living which accompanies the rising price level. It is not the *high* cost of living that is doing the damage, but the *increasing* cost of living measured by the average price level of commodities and services.

The reason that an advancing price level causes unrest and passive or active hostility is because of the decreasing purchasing power of the monetary unit in which wages, salaries and interest are paid by law and custom. If wages or salaries rose as fast as prices, there would be no damage to any class except to those whose incomes are based on a fixed rate and those who hold long time contracts of indebtedness payable in current monetary units. This includes bond holders and mortgage holders. Governments lose in decreased purchasing power of income received, but gain by the scaling down of their indebtedness. The dollars, repaid when the indebtedness matures, buy less than the dollars given when the loan was made. This simply robs the creditor of the return

which he expected to receive. Life insurance proceeds now purchase only one-half of what they would have realized before the war and this works a great and unintended hardship on an especially defenseless part of the population.

The great trouble is that with an advancing price level, wages, salaries, interest, rents and taxes do not advance together. The prices themselves do not advance together. Wholesale prices rise quicker than retail prices and the various commodities advance at different times and rates. Lumber, for example, has only in recent months shown a spectacular advance, having lagged behind in the race for large profits and quick returns. Those who advance prices the most rapidly and in the greatest amounts profit by the slowness of the others.

THE PLIGHT OF FIXED INCOMES

The greatest gains, however, to business men ("enterprisers") and speculators arise from the relative slowness with which wages, salaries, railroad rates, taxes, rents, interest and other fixed charges rise compared with the prices of commodities. The result of it all is that tremendous and unexpected returns have come to business men and speculators. Average *real* wages (measured in purchasing power) actually decreased during the war.¹ In some industries wages have more than doubled during the war and since then, thus keeping even with the advancing prices or even gaining a little, but this is not the case generally. The wage earner is like a man rowing against a swift current. He seems to be making rapid progress through the water but finds that he is making hardly any progress along the shore. This is discouraging and tends to make him lose interest in his work.

¹ Fisher, Irving, *Stabilizing the Dollar*, p. 56.

The plight of salaried people in industry and elsewhere is much worse than that of wage earners, increases in salaries being far below the increase in the cost of living. Salaries are much slower to rise than wages and the result is that great numbers of salaried men and women have left their positions in the hope of bettering their incomes, which have kept on decreasing in purchasing power in spite of additions given at long intervals. Teachers in colleges and schools have left for other lines of work. Postmen, policemen, firemen and other public employees have left the service in great numbers, holding a grievance because of being forced out of their chosen vocations. Few realize that the salary of the President has been practically cut in half during the last four years. The same has happened to the judges of the supreme court and all other courts, to senators, representatives and legislators, to the governors and other state officials, county officials, city and village and township officials, with many others too numerous to mention even by general classifications. Many able officials have resigned because their income is now too small for them to live up to the standard demanded by their positions.

These losses weaken the machinery of civilization. A police strike has actually taken place in one of our large cities and unions have been formed among public school teachers. Salaried people, the "salaried" as they are coming to be called abroad, are also beginning to move in the same direction. When these classes are hostile or discontented, the outlook is very bad for the nation and society generally. It means that people of wealth and power are being separated from those who formerly stood with them.

Besides these classes who form such

a great and important part in industry and its environment, there are the persons whose rates of income are fixed by contract or law. This includes bondholders, preferred stockholders and insurance policy-holders, the value of whose income has been cut in two during the last five years. Then there are stockholders in the public utilities, including railroads, street railways, water, gas and electric light companies. Their real incomes have been cut from one-third to one-half during the same period.

The loss on the railroads while under government control was due mainly to the fact that wages and material costs doubled while their rates were increased less than one-third. They have gone back to private control with government guarantee that rates will be increased enough to allow them to receive a certain return on their capital. There is now a terrific congestion of freight due to shortage of equipment and improvements. This came about only partly through the war. For many years the rates allowed the railroads have not been sufficient to give them the ability to make the proper expenditures for extensions and equipment.

Purchasing power decreased in the years before the war nearly 3 per cent per annum, according to Professor Irving Fisher. From 1896 to 1914 prices rose about 50 per cent. Between 1914 and the armistice in November 1918, prices doubled. Since that time prices have advanced another 25 per cent from the 1914 basis. The advance is continuing at a rapid rate. In Europe the same general conditions exist except that the rise is greater and more rapid. A dollar now buys only what thirty cents would buy in 1896. Why save money when its real value runs out many times faster than the interest accumulates?

The general result is that a tremendous amount of the nation's purchasing power has been taken from the mass of the people and transferred to a relatively small class of business men, stockholders and speculators. The business men include many farmers, though the farmers have a grievance in that the price of wheat was set after the country entered the war and has remained the same, while everything that they buy has increased in price. The amount of this injustice is estimated at many billions of dollars per year and is a tremendous matter, both in its material aspect and because of the bitter discontent and resentment which it has caused throughout the nation.²

We have interfered with our standard of value. We have depreciated it, depreciated it so that prices are two and one-half times what they were at the beginning of 1914. The average level of wholesale commodity prices stands two and one-half times what it did January 1, 1914.

That has been a huge social injustice. The thing that has done it has been the inflation of bank credits and bank currency. It has come about unwittingly. People have not understood how it was coming, what it was, how it was affecting them.

And the hurt has been terrible. This hand of inflation has reached back into every savings bank account that there was in 1914 and has clipped those dollars until there is only 40 cents of them left.

It has rewritten every insurance policy so that the purchasing value of the principal is to be measured in 40-cent dollars and not 100-cent dollars.

It has rewritten every corporate bond down to two-fifths of its former value in purchasing power, and in that way has taken from the people what has been estimated to be a hundred billion dollars, and then with the other hand has thrown it broadcast, given it to speculators, given it to you manufacturers where you have not looked forward to it. Anybody who bought raw material found that raw materials rose so that he could sell his product for more than he dreamed he could get on the stock.

² From speech by Frank A. Vanderlip, New York banker, as reported in *The Detroit Free Press*, April 10, 1920.

Everybody who bought goods and held them found the price rising and profits accruing that they had not earned, that were taken from somebody else. They are theirs rightfully enough because they could not avoid them.

And then it created the profiteer. In a period of rising prices when nobody knows just what could be charged or should be charged, the profiteer breeds. He is made by the rising prices; he does not make rising prices.

And that social injustice has extended into industry. It has been one of the chief reasons for industrial unrest. For wages did not keep up with the rise of prices; it has taken hold of the throat of every school teacher, of all those receiving fixed incomes who could not raise their incomes but found their expenses increasing.

And what has been taken from them has been this money that we are spending so gaily, being extravagant with, because it went into the hands of people who got it easily, and who parted with it easily.

There has been that tremendous transfer of wealth as the result of applying this changed standard of value to the measurement of money contracts, to the measurement of incomes that were fixed, making a 40-cent dollar out of a 100-cent dollar.

All these disturbed material conditions in industry and around it have caused disturbed mental conditions. The worst factor in this mental disturbance is the widespread feeling that these material conditions are based on injustice. The hostility toward profiteers, landlords and employers is a reaction from this feeling of wrong suffered by one class at the hands of another class. Political issues are beginning to define themselves along class lines, which is a new and startling development in this country. The political activities of the Non-partisan League (farmers) of Labor within and without the Federation of Labor, of Socialists and the increasing cleavage of the Republican and Democratic parties into progressive and conservative wings are of great significance. They do not rest upon accident but are mainly due to the general sense of serious social injustice underlying present conditions.

When hand and brain workers find

that their incomes are continually decreasing in purchasing power, so that they feel they must obtain more from their employers, they are greatly disturbed in mind. To keep asking for more at frequent intervals is very distasteful to most men and many leave their positions rather than do this. This is especially true of salaried employees. Then there are the strikes which are continually breaking out. These are very disturbing, not only to those directly concerned but to the whole nation as well. Great mass movements, such as the Steel Strike and the Coal Strike, threaten to shake the industrial and social structure like a civil war. Transportation strikes seem to be always just on the edge of breaking out. Who is bold enough to say that they have really been settled and will not break out again in the near future, if the rise in the price level continues month after month and year after year?

In addition to these general disturbing factors, people are being constantly jarred and irritated by rises in prices everywhere they turn and by the resistance to any advances that they themselves make on their goods or services. Each advance is looked upon as an imposition, price indexes being unknown to or misunderstood by most people. Many of the advances are impositions. Profiteering is part of the trouble, but not the main part, which in my opinion is inflation of the currency by the addition of enormous amounts of gold, paper money and liberty bonds since the beginning of the war in 1914. As a medium of exchange the currency is quite satisfactory, but as a measure of value it is not satisfactory and must be brought to reasonable stability in order to carry on the activities of civilization in a normal manner.

The war is directly responsible for

some of the mental excitement, but has probably stimulated desirable trends of thought in the country much more than bad tendencies. There has no doubt been considerable slowing up from the high tension of industrial production during wartime. The effect on the five million soldiers who were suddenly taken out of their accustomed environment was unsettling in many ways, but they returned to peaceful pursuits without disturbance. My belief is that most of them came back more loyal to the country and more willing to do their share of the country's work than before they went away.

PURCHASING POWER OF THE DOLLAR

Under-production has been stressed to such an extent that it has become almost a fixed idea, not subject to question, but statistics covering quantity do not show any great falling off in production. On the contrary they show that national production is about normal. Mr. Hoover's recent article in the *Saturday Evening Post* indicates that while production for 1919 decreased about 12 per cent from 1917 and 1918, it is from 3 to 9 per cent above 1913, 1914 and 1915. It is worthy of much thought, however, that with five million men out of industry in 1918 the national production should be greater than before or since the war. Furthermore, many more women are now in industry than formerly and there is no lack of employment. Prices have gone up year by year since 1915 until they are more than doubled and the cost of living has just about doubled. There are no production figures to justify this on the basis of scarcity. The explanation is not there but is in the dollar, which has changed as a measure of value, decreasing one-half in purchasing power.

What we need is a dollar that will

buy the same average amount of goods as long as average general production is the same. If a store should keep decreasing its yardsticks, measures of weight, quantity, etc., so that it was found that each year one-eighth less of everything was given to its customers, the police would have great difficulty in protecting that store. Yet that is what has happened with the dollar which measures everything that the people purchase. Starting with July, 1916, its purchasing power has shrunk about 13 per cent each year for three years. From July, 1919, to January, 1920, it has shrunk about 6 per cent and is still shrinking. Dun's price index shows a rise of 18.8 per cent from April 1, 1919, to the same date this year, and it shows a rise of 1.9 per cent during March of this year.

To keep from "progressing backwards," wages, salaries and other incomes must increase accordingly, say one-seventh annually on the 1916 basis.³ This opens up a future prospect of necessary adjustment with employers, which is very depressing to all concerned. The employers are not happy, as they cannot read the future and fear that a price reverse may start at any time, beginning with the usual monetary crisis and followed by business depression. The crises of 1907, 1914, 1873 and 1893, with smaller ones in between, are too recent not to form a dark background to the thoughts of business men. There are few of them who would not gladly choose much smaller returns than their present profits, if they could only depend on them. Experience says they cannot do so, and the result is that they make all the hay they can while the sun shines.

The business man's cost statements lose much of their meaning because the unit of value used in them changes

³ *Babson's Report*, Jan. 20, 1920.

so rapidly. The same applies to the employee, who does not know just how much the price level has changed. The result is that, lacking a stable basis, both try to get all they can and give no more than they think they must. The idea of fairness has largely disappeared for the simple reason that nobody knows just what is fair. Each side feels that the other is unfair and so the breach widens.

"Money in circulation in the United States rose from three and one-third billions in 1913 to five and one-half billions in 1918, and bank deposits from thirteen to twenty-five billions, both approximately corresponding to the rise in prices."⁴ Of this latter amount of currency, about two billions was gold and three and one-half paper. In December, 1919, we had about six billions, the addition consisting of paper.⁵ In addition to this there is undoubtedly a tremendous amount of liberty bonds being used as currency. Any part of the total amount of bonds (26 billions) may be used as a basis of paper money when the bonds come into the Federal Reserve Banks as collateral or in other ways. The possibilities along this line are very disquieting. The proportion of gold to paper has decreased since 1913 from nearly 100 per cent to less than 50 per cent. The federal reserve system is now close to its legal limit of 40 per cent and it is of great interest and importance whether the thinning of the currency stops there or whether we follow the European nations out on to the stormy sea of irredeemable paper money.

Inflation

The rise in prices has followed the increase in the currency much too closely to leave any doubt that it is the

main factor of disturbance, and a study of the statistics does not show that the war (by exports, etc.) or under-production have been the chief causes, or even that their variations have paralleled the rise in the price level. We are simply experiencing a rise similar to many historical instances following great additions to the currency, either of money metals or paper. Paper inflation is the worst form of currency inflation, however, because when the bubble finally bursts through loss of the people's confidence there is nothing left. Money metals have substance and represent real labor and much desirability in themselves.

The present loss of confidence in the money and bonds of the United States is another serious consequence of the thinning of the currency and the advancing price level. Talk of "50-cent dollars" is quite common nowadays and provokes no comment, which is a great change from the campaign of 1896 with its victorious slogan of "honest dollar" and solemn declarations of statesmen that they stood for a "dollar equal to one hundred cents" (in gold). Compared with that dollar our present dollar is equal to thirty cents (in purchasing power). On this line of reasoning a milkman who had watered the milk might tell his irate customer that he stood for an honest quart of two pints; perhaps adding to himself that he would thereafter carefully strain out the minnows. What purchasers are interested in is the value of the dollar in purchasing power. The decline in the market value of liberty bonds disturbs many of those who purchased them. The explanation is simple. The purchasing power of the dollar which the bonds promise to repay is less now than of the dollars which were loaned to the United States. The interest coupons also purchase less than they did at first.

⁴ Fisher, Irving, *Stabilizing the Dollar*, p. 34.

⁵ *Literary Digest*, March 13, 1920, p. 44.

But people do not understand this, or if they do, are irritated because of the facts and lack of remedy.

When people lose confidence in the money bearing their government's name, and in the bonds which are the solemn promise of that government to pay, the general idea of government is weakened in the minds of the people. These are the conditions confronting the United States today and unless we control them properly, reactions similar to those in Europe can be expected. This saying is attributed to Lenine: "The best way to destroy a capitalistic state is to debauch its currency." The genius of the American people will make necessary changes in an orderly manner and neither Lenine nor his ideas will destroy our country or our government. However, when the unit by which values are measured shrinks 50 per cent within four years and is still decreasing rapidly, we have a condition that must be dealt with, and without delay.

A dollar whose purchasing power stays reasonably constant with a properly weighted index of commodity prices is what is needed. There must be some method of attaining it and America should be the first to find it. The United States is a great self-governing nation and an independent economic unit. Its natural resources are wonderful and the people are intelligent, industrious and efficient. It is a senseless crime against the people and against civilization to allow this destructive condition to keep on to its final and logical end—financial and industrial collapse with a possible upset of society.

Professor Fisher's plan as set forth in his book, *Stabilizing the Dollar*, is a simple and apparently practicable plan, embodying many years of thought and study. It should be studied by all who feel the importance of this

great problem and great efforts should be made to bring it (or a better plan) into national legislative enactment.

It is based on the idea of paper money with gold redemption, but changing the amount of gold in the dollar periodically, in order to offset and correct the changes in the price level as shown by a price index like that now published by the United States Bureau of Labor Statistics.

Widespread purchasing power is one of the greatest assets that a nation can have and is one of the chief reasons for America's great wealth and prosperity. In an economic unit there must be enough purchasing power given out in industry to buy and consume its output. Otherwise the surplus clogs the machinery of production, at times almost stopping it entirely. This leads to exports of goods that could be consumed at home and to struggles with other nations for foreign markets. It also leads to the existence of a class of wealth controllers whose families and parasites employ their talents as spenders in trying to dispose of the accumulated purchasing power in luxury, useless properties and useless activities.

The great pyramids and temples of Egypt were probably an unconscious attempt to dispose of the surplus production of an industrious population. Prosperity of a sort no doubt resulted, but it rested on the surplus taken from a great population of slaves and renters of farms. It is no ideal for Americans. America stands for a square deal, which implies a fair division of the industrial production. Fair division requires a fair measure of value and one that does not change. At present, we lack this most needful, measure of value, but it will appear in due time through earnest thought and effort.

A stable measure of value will make

fair settlements possible and the settlements will not be upset in a few months by changes in value. Adjustments can then be made slowly and safely as fundamental conditions may indicate. Agreements between employer and

employees, creditors and debtors can be made and kept. Most of the present mental unrest will subside and other national and industrial problems can be discussed and adjusted in an orderly, fair and American way.